

February 2006

Flash Report

The Employees' Retirement System of the County of Milwaukee

MERCER

Investment Consulting

Trustees' Summary

The Total Fund had an aggregate market value of approximately \$1.6 billion at the end of February. The Total Fund gained 0.3% during the month, leading the Reference Index by 20 basis points.

The domestic equity markets posted mixed results during February as large cap equity, as measured by the Russell 1000 Index, gained 0.2% and small cap equity, as measured by the Russell 2000 Index, declined 0.3%. Value outperformed growth in both the large cap and small cap arenas.

The international equity markets experienced a decline during February as the EAFE Index of developed markets returned -0.2% in US dollar terms and emerging market equities, as measured by the MSCI Emerging Markets Index, returned -0.1%.

The investment-grade fixed income market, as measured by the Lehman Aggregate Index, gained 0.3% during the month of February. High yield issues outperformed the broad market during the month, gaining 0.6% as measured by the Merrill Lynch Yield Index.

Recommendations and Comments

- The Fund is currently overweight mid cap equity and high yield fixed income and underweight core fixed income relative to the new investment policy.
- The following managers have presented a due diligence update during 2006: Hotchkis & Wiley (Jan), Reinhart & Mahoney (Feb), EARNEST Partners (Feb) and Boston Partners (Feb).
- Artisan Partners will present a due diligence update at the meeting on March 15, 2006. Ariel Capital Management will be discussed in detail at the 6 April Investment Committee meeting, with a due diligence meeting set for the full Pension Board meeting, also in April.
- The new mid cap / small cap split that was reviewed at the March Investment Committee meeting is reflected in this report. A revised policy has been discussed at the Investment Committee meeting and will be presented at the March 15, 2006 Board meeting.

MANAGER REPORTED PERFORMANCE
As of February 28, 2006

	<u>Assets (\$ millions)</u>	<u>February</u>	<u>Year To Date</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>	<u>7 Yrs</u>	<u>10 Yrs</u>	<u>Since Inception</u>	<u>Inception Date</u>
Total Fund (1)	1,551.95	0.3	3.6	12.3	17.8	8.9	8.4	9.6	–	
vs. Composite Market Index		0.1	3.1	10.2	16.3	7.3	6.7	8.6	–	

LARGE CAP VALUE EQUITY MANAGER

Boston Partners	158.35	-0.3	3.5	14.5	22.0	7.6	9.8	11.5	12.4	8/1/95
Boston Partners - Net		-0.3	3.4	14.3	21.8	7.4	9.6	11.2	12.2	
vs. Russell 1000 Value + 1%		0.7	4.7	11.3	22.3	7.7	7.6	12.0	13.0	
S&P 500 + 1%		0.4	3.1	9.4	18.1	3.4	3.1	9.9	10.9	

LARGE CAP GROWTH EQUITY MANAGER

Mellon Capital Management - Ru 1000 Growth Index	98.21	-0.2	1.6	9.5	15.0	N/A	N/A	N/A	-0.7	5/31/01
Mellon Capital Management - Ru 1000 Growth Index - Net		-0.2	1.6	9.5	15.0	N/A	N/A	N/A	-0.7	
vs. Russell 1000 Growth		-0.2	1.6	9.5	14.9	-0.9	-2.0	6.4	-0.8	

LARGE CAP EQUITY INDEX

Mellon Capital Management - S&P 500	115.48	0.3	2.9	8.4	17.2	2.4	2.1	9.0	10.8	4/13/95
Mellon Capital Management - S&P 500 - Net		0.3	2.9	8.4	17.1	2.4	2.1	9.0	10.7	
vs. S&P 500		0.3	2.9	8.4	17.1	2.4	2.1	8.9	10.7	

MID CAP VALUE EQUITY MANAGER

Hotchkis & Wiley	44.83	0.7	4.8	16.5	N/A	N/A	N/A	N/A	16.3	2/18/05
Hotchkis & Wiley - Net		0.6	4.6	15.6	N/A	N/A	N/A	N/A	15.4	
vs. Russell Mid Cap Value		0.9	5.3	17.4	28.4	13.6	12.9	13.9	17.4	

MID CAP GROWTH EQUITY MANAGER

Artisan Partners	45.22	-0.6	4.8	17.0	23.0	6.1	N/A	N/A	5.5	6/12/00
Artisan Partners - Net		-0.7	4.7	16.0	22.0	5.3	N/A	N/A	4.7	
vs. Russell Mid Cap Growth		-1.2	4.7	17.6	25.4	5.1	6.2	9.2	-2.2	

(1) Total Fund returns represent actual returns through 12/31/2005 and estimated performance thereafter.

MANAGER REPORTED PERFORMANCE
As of February 28, 2006

<u>MID CAP CORE EQUITY</u>	<u>Assets (\$ millions)</u>	<u>February</u>	<u>Year To Date</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>	<u>7 Yrs</u>	<u>10 Yrs</u>	<u>Since Inception</u>	<u>Inception Date</u>
EARNEST Partners	41.52	-0.6	5.4	18.7	N/A	N/A	N/A	N/A	19.1	2/18/05
EARNEST Partners - Net		-0.6	5.4	17.7	N/A	N/A	N/A	N/A	18.0	
vs. Russell Mid Cap Index		-0.1	5.0	17.7	27.2	10.5	11.1	12.5	17.7	
Reinhart & Mahoney	11.65	-0.3	6.5	17.1	N/A	N/A	N/A	N/A	16.3	2/18/05
Reinhart & Mahoney - Net		-0.3	6.2	16.7	N/A	N/A	N/A	N/A	15.9	
vs. Russell Mid Cap Index		-0.1	5.0	17.7	27.2	10.5	11.1	12.5	17.7	
<u>SMALL CAP EQUITY MANAGERS</u>										
Westfield Capital Management	48.91	0.3	10.9	21.7	26.8	8.4	N/A	N/A	7.1	2/6/01
Westfield Capital Management - Net		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
vs. Russell 2000 Growth		-0.5	9.1	17.3	26.8	5.5	5.2	5.2	5.5	
Ariel	42.30	0.0	6.0	6.4	23.8	13.5	14.0	16.4	16.5	11/30/95
Ariel - Net		0.0	6.0	6.0	23.3	13.0	13.6	15.9	16.1	
vs. Russell 2500 Value		0.1	6.7	15.9	28.9	14.8	15.0	14.3	14.5	
Russell 2500 + 2%		0.1	7.3	19.0	30.0	13.4	14.6	13.9	14.2	
<u>INTERNATIONAL EQUITY MANAGERS</u>										
Capital Guardian	82.90	-1.3	4.6	22.3	27.8	8.4	9.6	11.2	10.6	9/1/94
Capital Guardian - Net		-1.4	4.5	21.8	27.2	7.9	9.1	10.7	10.0	
vs. EAFE + 1%		-0.1	6.1	18.9	30.4	8.8	7.1	7.7	7.5	
Grantham, Mayo	141.29	0.4	6.8	21.3	35.3	17.1	14.6	12.0	11.9	4/13/95
Grantham, Mayo - Net		0.3	6.6	20.4	34.3	16.2	13.7	11.2	11.1	
vs. EAFE + 1%		-0.1	6.1	18.9	30.4	8.8	7.1	7.7	7.8	

MANAGER REPORTED PERFORMANCE
As of February 28, 2006

INTERNATIONAL SMALL CAP EQUITY MANAGER	Assets (\$ millions)	February	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Capital Guardian	57.29	-0.3	6.4	43.2	46.6	16.5	15.2	N/A	11.7	10/31/97
Capital Guardian - Net		-0.3	6.3	42.4	45.8	15.8	14.5	N/A	11.0	
vs. MSCI World Ex U.S. Small Cap + 1%		-1.2	5.9	23.8	39.6	16.7	13.7	7.1	9.0	
CORE FIXED INCOME MANAGERS										
JPMorganChase	111.32	0.4	0.4	N/A	N/A	N/A	N/A	N/A	2.4	11/1/05
JPMorganChase - Net		0.4	0.4	N/A	N/A	N/A	N/A	N/A	2.3	
vs. LB G/C + 0.5%		0.3	0.2	2.9	3.7	6.1	6.4	6.8	1.7	
LB Aggregate + 0.5%		0.4	0.4	3.2	3.7	5.9	6.4	6.8	1.8	
Mellon Capital Management	210.27	0.3	0.3	2.8	3.2	5.5	6.0	6.4	6.2	1/31/96
Mellon Capital Management - Net		0.3	0.3	2.8	3.2	5.4	5.9	6.4	6.1	
vs. LB Aggregate		0.3	0.3	2.7	3.2	5.4	5.9	6.3	6.1	
Loomis, Sayles	90.87	0.5	0.9	3.2	7.5	9.4	8.9	8.7	10.1	6/30/91
Loomis, Sayles - Net		0.5	0.9	3.1	7.3	9.2	8.8	8.6	10.0	
vs. Fixed Income Reference Index + 0.5% (1)		0.4	0.4	3.2	3.7	5.9	5.9	7.0	8.1	
LB Aggregate + 0.5%		0.4	0.4	3.2	3.7	5.9	5.9	6.8	7.9	

(1) The Fixed Income Reference Index consists of the 50/50 until May 1999 and the Lehman Brothers Aggregate Index thereafter.

MANAGER REPORTED PERFORMANCE
As of February 28, 2006

<u>HIGH YIELD FIXED INCOME MANAGER</u>	<u>Assets (\$ millions)</u>	<u>February</u>	<u>Year To Date</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>	<u>7 Yrs</u>	<u>10 Yrs</u>	<u>Since Inception</u>	<u>Inception Date</u>
Loomis, Sayles	149.85	2.2	3.6	5.3	15.0	10.8	10.3	9.6	12.6	11/30/82
Loomis, Sayles - Net		2.1	3.5	5.2	14.9	10.7	10.2	9.5	12.5	
vs. Merrill Lynch High Yield + 1.5%		0.8	2.5	5.3	13.9	9.1	7.6	8.4	N/A	
<u>REAL ESTATE MANAGERS</u>										
ING Clarion Real Estate Securities	65.53	2.8	10.0	33.9	32.5	21.9	19.4	N/A	14.0	1/13/97
ING Clarion Real Estate Securities - Net		2.8	10.0	33.4	32.0	21.5	18.9	N/A	13.5	
vs. Wilshire REIT Index + 1%		2.2	10.3	34.4	33.1	22.9	20.7	17.2	15.1	
<u>VENTURE CAPITAL MANAGERS</u>										
Adams Street Partners (1)	16.30	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	10/1/92
Adams Street Partners (1)	0.40	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	1/2005
Progress (1)	1.10	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	7/1/95

(1) Market value is as of June 30, 2005

ASSET ALLOCATION
As of February 28, 2006

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Large Cap Equity	24.0 %	20.0 %	17.0 %	25.0 %
Boston Partners	10.2			
Mellon Capital Russell 1000 Growth	6.3			
Mellon Capital S&P 500	7.4			
Total Medium Cap Equity	9.2 %	6.0 %	4.0 %	7.5 %
Artisan Partners	2.9			
Hotchkis & Wiley	2.9			
EARNEST Partners	2.7			
Reinhart & Mahoney	0.8			
Total Small Cap Equity	5.9 %	5.0 %	3.0 %	6.5 %
Westfield	3.2			
Ariel	2.7			
Total International Equity	14.4 %	16.0 %	11.0 %	21.0 %
Capital Guardian	5.3			
Grantham, Mayo	9.1			
Int'l Small Cap Equity	3.7 %	4.0 %	0.0 %	7.0 %
Capital Guardian	3.7			
Venture Capital	1.1 %	3.0 %	0.0 %	5.0 %
TOTAL EQUITY	58.4 %	54.0 %	37.0 %	74.0 %

ASSET ALLOCATION
As of February 28, 2006

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Core Fixed Income	26.6 %	35.0 %	31.0 %	41.0 %
JP Morgan	7.2			
NCM	0.0			
Mellon Capital	13.5			
Loomis, Sayles	5.9			
High-Yield Fixed Income	9.7 %	7.0 %	5.0 %	9.0 %
Loomis, Sayles	9.7 %			
Cash	1.2 %	1.0 %	0.0 %	5.0 %
TOTAL FIXED INCOME	37.4 %	43.0 %	34.0 %	55.0 %
REAL ESTATE	4.2 %	3.0 %	0.0 %	7.5 %
ALTERNATIVE INVESTMENTS	0.0 %	0.0 %	0.0 %	0.0 %
TOTAL	100.0 %	100.0 %		

**Average Credit Quality
of current Fixed Income managers**

JPMorgan	AA+
Mellon Capital Management:	AA1/AA2
Loomis Investment Grade:	AA
Loomis High Yield:	BB

Mercer Ratings for Current Managers

<i>Large Cap Eq</i>	Mercer Rating
Boston Partners	A
Mellon Russell 1000 Growth	A
Mellon S&P 500	A

<i>Mid & Small Cap Eq</i>	
Artisan	A
Hotchkis & Wiley	A
EARNEST Partners	B+
Reinhart & Mahoney	B
Westfield	A-
Ariel	B

<i>Int'l Eq</i>	
Cap. Guardian	B+
Grantham, Mayo Intl Intrinsic Value	A
Grantham, Mayo Intl Small Company	A

<i>Int'l Small Cap Eq</i>	Mercer Rating
Cap. Guardian	B

<i>Core Fixed</i>	
JP Morgan	A
NCM Capital Management	N
Mellon	A
Loomis, Sayles	B+(T)

<i>High Yield Fixed</i>	
Loomis, Sayles	B+(T)

<i>Real Estate</i>	
ING Clarion	N

The Employees' Retirement System of the County of Milwaukee Proposed Investment Manager Due Diligence 2006

<u>Date</u>	<u>Managers Invited to Present</u>
18-January	Hotchkis & Wiley
08-February	Reinhart & Mahoney and EARNEST Partners
15-February	Boston Partners
15-March	Artisan*
19-April	Ariel*
17-May	
21-June	
19-July	Adams Street Partners and ING Clarion
16-August	Capital Guardian and GMO
20-September	
18-October	Westfield Capital
15-November	Loomis Sayles (both Core and High Yield)
20-December	JP Morgan

* Subject to additional performance review at the Investment Committee meeting prior to the Pension Board meeting. Managers are not required to attend Investment Committee meetings.

Notes:

The format and timings of all investment manager presentations are to be dictated by the Pension Board. Suggested discussion outline attached for all but venture capital, real estate managers and Loomis Sayles (who have to present two strategies under management). The middle of the year has been deliberately left less crowded to allow manager presentations to be brought forward should issues arise. This would also serve to free up the final quarter of the year.

MERCER

Investment Consulting

Mercer Investment Consulting, Inc.
10 South Wacker Drive, Suite 1700
Chicago, IL 60606-7500
312 902 7500